



CITY OF BEVERLY HILLS STAFF REPORT

Meeting Date: February 18, 2014

To: Honorable Mayor & City Council

From: Daniel E. Cartagena, Senior Management Analyst *DE*

Subject: Request by Mayor Mirisch for a Report from the Metropolitan Water District (MWD) on Issues Related to MWD's Fiscal Policy

Attachments:

1. Letter and Attachments from San Diego County Mayors
2. MWD Statement – Two-Year Budget, Rate Setting and Use of Reserves

INTRODUCTION

At the request of Mayor Mirisch, City of Beverly Hills representative to the Metropolitan Water District Board of Directors, Dr. Robert Wunderlich will provide a report focusing on fiscal policy issues under consideration by the MWD Board of Directors.

DISCUSSION

In response to a letter Mayor Mirisch received signed by 14 San Diego County Mayors, MWD Boardmember Wunderlich, will provide an overview of the agency's two-year budget, rate setting process and use of reserves.

FISCAL IMPACT

None

RECOMMENDATION

This item is presented for informational purposes only.

GC
George Chavez

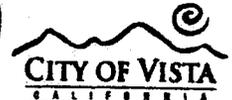
Approved By

Attachment 1

COPY

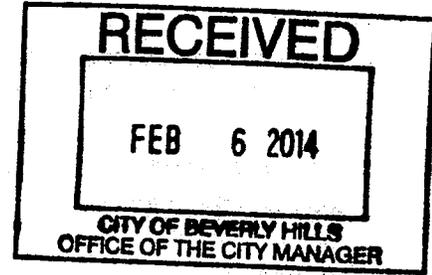


CITY OF LA MESA
JEWEL OF THE HILLS



February 3, 2014

The Honorable John Mirisch
City of Beverly Hills
455 N. Rexford Drive
Beverly Hills CA 90210

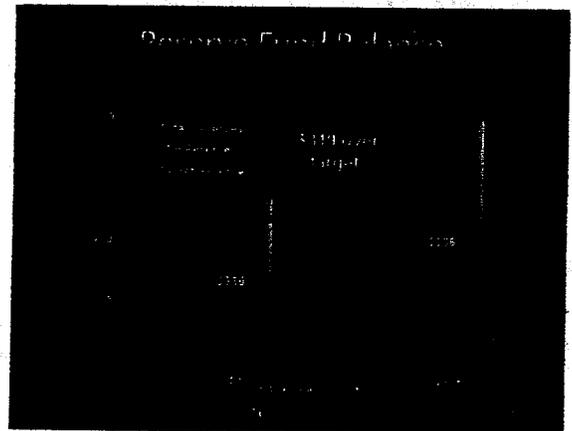


Dear Mayor Mirisch:

As mayors of Southern California cities, we are all painfully aware of the fiscal challenges municipalities have faced over the past several years. These challenges have forced us to make difficult choices, including cutting key city services, laying off staff and freezing wages and salaries.

Against this backdrop, we were shocked to learn recently that the Metropolitan Water District of Southern California (MWD) has, over the past 21 months, collected almost \$600 million more from Southern California ratepayers than it planned for and said it needed in April of 2012 when it adopted its budget and adopted 5% water rate increases for each of the 2013 and 2014 calendar years.

By June 2013, less than 15 months after it adopted rates for 2013, MWD had already over-collected \$217 million more than necessary to pay 100% of its budgeted expenditures. Rather than refund these rates or roll back the planned increase for 2014 – which many cities and agencies requested – MWD voted to spend more money. It also “doubled down” on our constituents by also voting to suspend a reduction in property taxes which otherwise would have gone into effect on July 1, 2013. Amazingly, with more than \$217 million in hand over and above what it needed to pay 100% of its budgeted expenses, MWD claimed that these tax revenues were “essential to the fiscal integrity of the district.” Today, this over-collection stands at \$600 million and exceeding MWD’s own board-established maximum reserve level by \$320 million.



We all recognize the importance of planning for and having a reliable water supply for Southern California; but this is no excuse for collecting hundreds of millions of dollars from Southern California water ratepayers at the same time they are struggling to pay for other critical services, be they police, fire, parks or any number of demands for city services.

Y900

MWD begins its rate-setting process for calendar years 2015 and 2016 at committee and board meetings in Los Angeles on February 10 and 11, respectively. If we all stand together and demand answers, we believe it is possible that MWD will find that no water rate increases are necessary for the next two years. Here's what you can do to help:

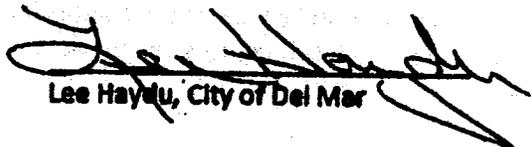
- Write a letter today, expressing your concerns to MWD's board of directors (template attached).
- Send your email to the board secretary, Dawn Chin, at dchin@mwdh20.com.
- Plan to appear and provide public comments during the February 10 MWD Finance & Insurance committee meeting. The meeting begins at 9 a.m. at the MWD headquarters, located at:
700 North Alameda Street Los Angeles
(Parking and public transit are available – MWD is located at Union Station)
- Plan to appear and provide public comment during the March 11 public hearing. The meeting will also be conducted at the MWD's headquarters.

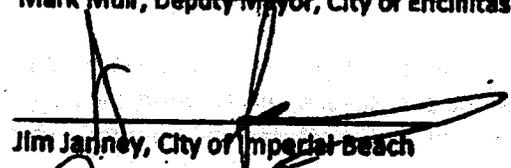
If you would like to receive updates, please email raterelief@sdewa.org. Thank you for your concern and interest in this important fiscal policy issue.

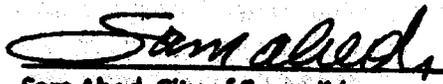
Sincerely,

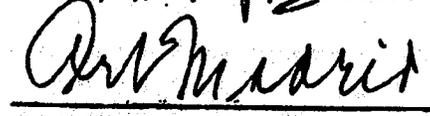

 Matt Hill, City of Carlsbad


 Mark Muir, Deputy Mayor, City of Encinitas

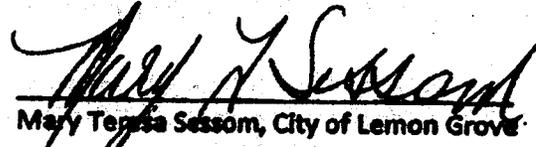

 Lee Haydu, City of Del Mar

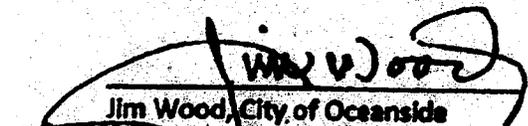

 Jim Jarney, City of Imperial Beach

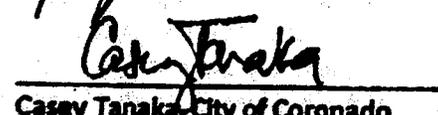

 Sam Abed, City of Escondido

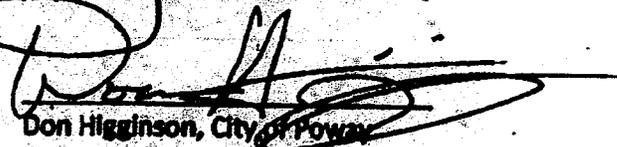

 Art Madrid, City of La Mesa

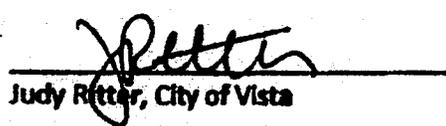

 Ron Morrison, City of National City


 Mary Teresa Sessom, City of Lemon Grove

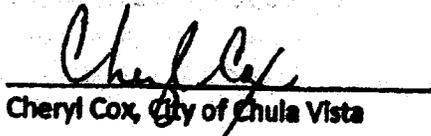

 Jim Wood, City of Oceanside


 Casey Tanaka, City of Coronado


 Don Higginson, City of Poway


 Judy Ritter, City of Vista


 Todd Gloria, City of San Diego

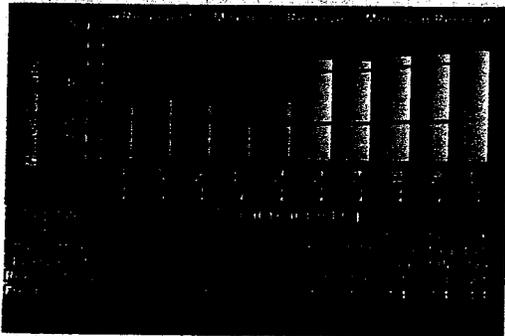
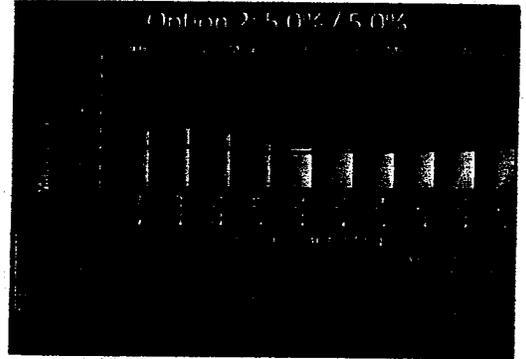

 Cheryl Cox, City of Chula Vista

The Metropolitan Water District of Southern California Continues to Over-Collect from Southern California Ratepayers

The Issues: Rate Increases. The Metropolitan Water District of Southern California is on pace to have its maximum reserves exceed its board-adopted maximum by \$319 million (or 66% more than maximum level) in fiscal year 2014. **Tax Hikes.** Last June MWD's board halted a scheduled property tax decrease, saying it needed more money in order to maintain its "fiscal integrity." **The result:** An additional \$4.4 million in taxes from property owners to MWD over and above water rates.

January 2012: MWD's staff told the board it needed 5% rate increases in 2013 and 2014 to maintain critical water delivery infrastructure and avoid layoffs. They said an alternative proposal of 3% rate increases in those years would threaten water supply reliability.

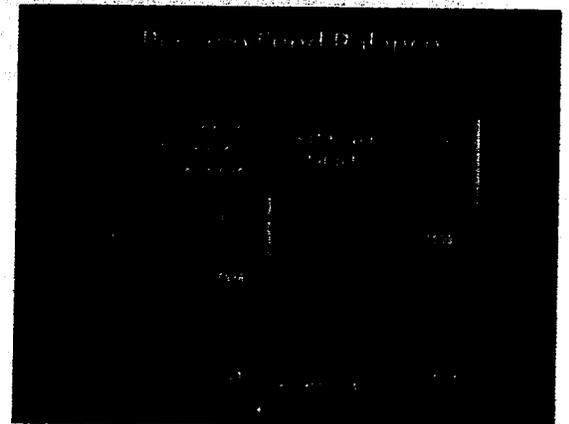
July 2012: Just three months after adopting the budget and 5% rates increases for 2013 and 2014, MWD ended FY 2011/12 with revenues of \$97 million over budget.



June 2013: MWD projects it will over-collect \$217 million in excess revenues, resulting in reserves exceeding its maximum limit by \$75 million. The MWD board also voted to suspend the tax rate limitations in Section 124.5 of the MWD Act, resulting in an additional \$4.4 million in unbudgeted revenues from higher-than-scheduled property taxes. Staff claimed the action was necessary to maintain MWD's "fiscal integrity".

Despite efforts by ratepayers, business groups, community leaders, mayors and several Southern California water agencies asking to reduce the planned rate increase and allow the scheduled property tax decrease, the MWD board voted to raise taxes and spend \$75 million on unbudgeted costs and programs; it chose to do nothing with its 5% rate increase scheduled to take effect in 2014. Leaving the 5% rate increase would generate MWD about \$15 million, staff reported.

January 2014: Having already diverted \$75M on unbudgeted uses, MWD still began FY 2014 with more than \$62 million over its maximum reserve level, in violation of its own Administrative Code. MWD could have easily avoided the 5% rate increase in 2014 by using a quarter of the \$62 million for that purpose. Staff now reports MWD is on track to add another \$270 million to its reserves this fiscal year, thus exceeding the maximum level by \$320 million.



SAMPLE LETTER

February xx, 2014

Jack Foley, Chairman of the Board
and MWD Board Members
P.O. Box 54153
Los Angeles, CA 90054-0153

RE: 2015 and 2016 Water Rates

Dear Chairman Foley and Board Members:

Like most California cities, the City of [name] finds that it is increasingly difficult to provide city services at an affordable cost to the public. Over the past several years, we have been forced to tighten our belts and figure out how to do more with less. Many cities have laid off staff and reduced the availability of public services by cutting hours and services.

Against this backdrop, we have been shocked to learn about the massive over-collection of revenues by MWD over the past two years: more than \$600 million above the amount needed to pay 100% of MWD's budgeted costs (and exceeding MWD's own board-established maximum reserve level by \$320 million).

On behalf of the City of [name], I ask that the MWD board consider implementing zero rate increases for 2015 and 2016, or explain why it is planning to raise rates given these facts.

We trust that MWD will continue to plan adequately in its adopted budget and rates for the costs necessary to obtain and deliver a reliable water supply. When MWD's budget estimations prove to be materially different than anticipated, such as over the past two years, MWD should take timely action to make the adjustments necessary to avoid continuing to collect revenues far in excess of its budgeted costs.

We do not support the MWD board's decision to simply spend over-collected revenues to pay unbudgeted costs. This practice undermines public confidence in MWD's budget and rate-setting process and it is not supported by the City of [name].

Sincerely,

cc: MWD board member representing the City of [name]

Attachment 2

Metropolitan Water District – Two-Year Budget, Rate Setting, and Use of Reserves

Robert Wunderlich, Director of MWD representing the City of Beverly Hills

The City of Beverly Hills purchases most of its water from Metropolitan Water District (“MWD”), the water wholesaler for Southern California. MWD has started its regular process for establishing a budget and setting wholesale water rates for the years 2015 and 2016. MWD establishes its rates based on a cost of service analysis. The process requires estimating water demand, identifying sources of water, and estimating the cost to provide the demanded water. Water rates are then established so that MWD’s revenue, primarily from sales of water, will equal the estimated cost of service. MWD held its first budget and rate workshop on February 10, 2014. Additional discussions will occur in the coming months, with a target of adopting a budget and rates at the MWD board meeting on April 8, 2014. At this point, it is premature to identify what rate will be established. A variety of options are being considered, ranging from no rate increase to a rate increase of a few percent.

An important factor affecting budget and rate considerations is the severe drought currently impacting California. The drought has large effects on projected sales and sources of water. Prior to the drought, MWD was able to increase its inventory of water stored in surface reservoirs and underground aquifers. During those years, MWD incurred expenses to acquire and transport both water that was sold and water placed in storage, but received revenue only from water that was sold. More recently, this balance has reversed. MWD has been meeting demand, in part, by selling water from storage, water for which some of the expenses had been incurred in prior years. Going forward, MWD has to consider the prospects for continued low precipitation, with the resulting impact on water demand, offset by the potential for increased conservation, and to allow for rebuilding the inventory of water in storage.

An additional factor affecting current budget and rate considerations is the use of MWD’s financial reserves. MWD has a policy of setting minimum and target levels of financial reserves based on ensuring that cash reserves will be sufficient to cover MWD’s fixed expenses. MWD’s financial reserves are currently substantially above its target level. This situation has arisen in large part because of some of the factors discussed above. After several relatively wet years and years of effective conservation, MWD lowered its projection of water sales going forward. However, during the more recent dry years, water sales have been higher than allowed for in the projections. In addition, since a portion of these sales were derived from water in storage, the expenses to transport the water to Southern California had already been incurred in prior years. As a consequence, financial reserves built up to higher than MWD’s target level. It is important to note, however, that there is a tradeoff between financial reserves and physical reserves (water in storage). Financial reserves have built up, in part, because of depleting physical reserves in storage. Water in storage will have to be replaced in the future.

Several possibilities are being considered for using MWD’s financial reserves, which are currently above its target level. The possibilities under discussion include (1) maintaining lower water rates going forward; (2) establishing a water management fund to provide for building water in storage; (3) reducing the unfunded liability associated with OPEB (Other Post-Employment Benefits); and (4) increasing the portion of capital expenditures paid for as Pay-Go (paying for a portion of capital expenditures from the operating budget as opposed to from debt financing). Additional possibilities may be brought forward during the meetings to be held through April. At this point, no decision has been made as to how financial reserves above the target level will be used.